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FISCAL IMPACT REPORT

ORIGINAL DATE 2/1/06
 LAST UPDATED 2/6/06 HB _____

SPONSOR Beffort

SHORT TITLE Mutual or Hedge Fund Fee Gross Receipts SB 457/aSFC

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	(105.0)		Recurring	General Fund
	(70.0)		Recurring	Local Govern- ments

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 500.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Regulation and Licensing Division (RLD)

State Investment Council (SIC)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment to Senate Bill 457 changes the gross receipts tax deduction that will be created by the bill to include receipts from performing management or investment advisory services for a mutual fund, hedge fund or real estate investment trust (REIT) located in New Mexico.

The amended bill defines the terms “hedge fund,” “mutual fund,” “investment advisor,” and “real estate investment trust.”

Synopsis of Original Bill

Senate Bill 457 creates a gross receipts tax deduction for the receipts from fees for management of a mutual or hedge fund located in New Mexico. The bill defines a “hedge fund” as a private

investment fund or pool, the assets of which are managed by a professional management firm that trades or invests, is not an investment company, and is comprised of investments by Securities and Exchange Commission accredited investors.

The effective date of this bill is July 1, 2006.

FISCAL IMPLICATIONS

TRD's fiscal impact estimate of the amended bill is based on the Report 80, Analysis of Gross Receipts Tax by Industrial Classification. The state collects about \$2.8 million in gross receipts tax from securities dealers, investment bankers, securities brokers and other financial companies. In addition, the amended bill will allow some receipts from banks and insurance companies to receive the deduction, causing the total revenue decrease to be about \$3.5 million per year. Only about 5 percent of this amount is expected to be eligible for the new deduction because a small number of these firms are located in New Mexico. About 60 percent of this revenue decrease will accrue to the general fund, while about 40 percent will accrue to local governments.

SIGNIFICANT ISSUES

According to SIC, Senate Bill 457 would help attract hedge and mutual fund managers to New Mexico because most other states do not tax this type of activity. These types of investment firms provide high-wage jobs and improve the investment and financial planning sector environment.

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 457 as amended by the Senate Finance Committee relates to House Bill 500, which creates a gross receipts tax deduction for the receipts from fees for management of a mutual or hedge fund located in New Mexico.

SS/nt:yr